

Auditing Procedures Report

Issued under P.A. 2 of 1982, as amended and P.A. 71 of 1919, as amended.

| | | | |
|--|----------------------------|--------------------------------------|----------------|
| Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Two <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other | | Local Unit Name Vandalia | County Cass |
| Fiscal Year End 2-28-2006 | Opinion Date 12-20-2006 | Date Audit Report Submitted to State | |

We affirm that:

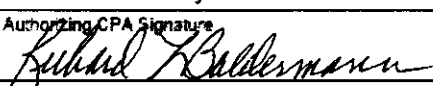
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations):

- YES NO Check each applicable box below. (See instructions for further detail.)
1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 4. ☒ ☐ The local unit has adopted a budget for all required funds.
 5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 11. ☒ ☐ The local unit is free of repeated comments from previous years.
 12. ☒ ☐ The audit opinion is UNQUALIFIED.
 13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | |
|---|-------------------------------------|--|----------------------------|
| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | |
| Financial Statements | <input checked="" type="checkbox"/> | | |
| The letter of Comments and Recommendations | <input checked="" type="checkbox"/> | No significant matters came to my attention | |
| Other (Describe) | <input type="checkbox"/> | | |
| Certified Public Accountant (Firm Name): Richard L. Baldermann, CPA | | Telephone Number: 517-655-4772 | |
| Street Address: 1197 Wild Cherry Drive | | City: Williamston | State: MI Zip: 48895 |
| Authorizing CPA Signature:  | | Printed Name: Richard L. Baldermann, CPA License Number: A234312 | |



18035 East State Street PO Box 57
Vandalia, Michigan 49095

PRESIDENT

Beverly Young

CLERK

Beth James

TREASURER

Carolyn Kelly

COUNCIL MEMBERS

Theresa Damron

Don Damron

James Pogue

Daisy Hervey

Floyd Foston

Bhola Singh



February 28, 2006
TABLE OF CONTENTS

Page

INDEPENDENT AUDITOR'S REPORT

BASIC FINANCIAL STATEMENTS

| | |
|---|---|
| Exhibit 1-Government Wide Statement of Net Assets | 1 |
| Exhibit 2-Government Wide Statement of Activities | 2 |
| Exhibit 3-Balance Sheet-Governmental Funds | 3 |
| Exhibit 4-Statement of Revenues, Expenditures and Changes in Fund Balance-Governmental Funds | 4 |
| Exhibit 5-Statement of Net Assets-Proprietary Fund | 5 |
| Exhibit 6-Statement of Revenues, Expenditures and Changes in Net Assets-Proprietary Fund | 6 |
| Exhibit 7- Statement of Cash Flows-Proprietary Fund | 7 |
| Notes to the Financial Statements | 8 |

REQUIRED SUPPLEMENTAL INFORMATION

| | |
|--|----|
| Exhibit 8-Budgetary Comparison Schedule-General Fund | 14 |
| Exhibit 9-Budgetary Comparison Schedule-Major Street Fund | 15 |
| Exhibit 10-Budgetary Comparison Schedule-Local Street Fund | 16 |
| Exhibit 11-Budgetary Comparison Schedule-CDBG Fund | 17 |

Richard L. Baldermann

Certified Public Accountant

1197 Wild Cherry Drive, Williamston, MI 48895

Office: (517) 655-4772

Cell Phone: (517) 896-2210

e-mail: ribaldermann@msn.com



INDEPENDENT AUDITOR'S REPORT

December 20, 2006

Village of Vandalia, Cass County
P.O. Box 57
Vandalia, Michigan 49095

Dear Council Members:

I have audited the accompanying basic financial statements of the Village of Vandalia as of February 28, 2006 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the Village's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Vandalia Village as of February 28, 2006 and the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Village has implemented the financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments*. The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

My audit was conducted for the purpose of forming an opinion on the Village's basic financial statements. The required supplemental information, budgetary comparison schedules, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

Richard L. Baldermann, CPA

Village of Vandalia
Statement of Net Assets
February 28, 2006

Exhibit 1

| | <u>Primary Government</u> <u>Governmental</u> <u>Activities</u> |
|---|---|
| Assets | |
| Current Assets | |
| Cash | \$ 126,204 |
| Taxes Receivable | 7,405 |
| Due From State | 17,803 |
| Due From Others | 8,898 |
| Non Current Assets | |
| Capital Assets | |
| Land | 50,729 |
| Other Capital Assets | 437,430 |
| Depreciation | (184,972) |
| Total Assets | <u>\$ 463,497</u> |
| Liabilities | |
| Current Liabilities | |
| Due to State | \$ 137 |
| Due to Federal Government | 1,090 |
| TOTAL LIABILITIES | <u>1,227</u> |
| Net Assets | |
| Invested in Capital Assets | 303,187 |
| Restricted for: | |
| Streets and Highways | 55,265 |
| Unrestricted | 103,819 |
| Total Net Assets | <u>462,270</u> |
| Total Liabilities and Net Assets | <u>\$ 463,497</u> |

The Notes to Financial Statements are an Integral Part of this Statement.

Village of Vandalia
Statement of Activities
For the Year Ended February 28, 2006

Exhibit 2

| | | Program Revenue | | Net (Expense) |
|--|-------------------|-----------------|------------------|-----------------------|
| | | | | Revenue and |
| | | | | Changes in Net Assets |
| | Expenses | Charges for | Operating | Governmental |
| | | Services | Grants and | Activities |
| | | | Contributions | |
| Governmental Activities: | | | | |
| General Government | \$ 85,226 | \$ 727 | | \$ (84,499) |
| Public Safety | 1,976 | 2,615 | | 639 |
| Public Works | 37,634 | | \$ 40,936 | 3,302 |
| Health and Welfare | 3,071 | | | (3,071) |
| Community and Economic Development | 2,185 | | | (2,185) |
| Culture and Recreation | 5,592 | | | (5,592) |
| Other Functions | 15,951 | | | (15,951) |
| Total Governmental Activities | <u>\$ 151,635</u> | <u>\$ 3,341</u> | <u>\$ 40,936</u> | <u>(107,358)</u> |
| General Revenues | | | | |
| Taxes | | | | 45,000 |
| State Grants | | | | 52,206 |
| Unrestricted Investment Earnings | | | | 1,050 |
| Rentals | | | | 550 |
| Donations | | | | 58 |
| Reimbursements | | | | 60 |
| Total General Revenues and Special Items | | | | <u>98,925</u> |
| Change in Net Assets | | | | <u>(8,434)</u> |
| Net Assets - Beginning | | | | <u>470,704</u> |
| Net Assets - Ending | | | | <u>\$ 462,270</u> |

The Notes to Financial Statements are an Integral Part of this Statement.

Village of Vandalia
Balance Sheet
Governmental Funds
February 28, 2006

Exhibit 3

| | Special Revenue Funds | | Other | Total |
|---|-----------------------|-----------------|-----------------|-------------------|
| | Major Street | Local Street | Governmental | Governmental |
| | Fund | Fund | Funds | Funds |
| Assets | | | | |
| Cash | \$ 38,925 | \$ (488) | \$ 600 | \$ 85,644 |
| Taxes Receivable | 7,405 | | | 7,405 |
| Due From State | 8,658 | 4,200 | | 17,803 |
| Due From Others | 8,898 | | | 8,898 |
| Due from Other Funds | 6,478 | | 4,709 | 11,187 |
| Total Assets | <u>\$ 70,363</u> | <u>\$ 3,712</u> | <u>\$ 5,309</u> | <u>\$ 130,937</u> |
| Liabilities | | | | |
| Due to Other Funds | \$ 7,013 | \$ 10,203 | | \$ 29,811 |
| Due to State | 137 | | | 137 |
| Due to Federal Government | 1,090 | | | 1,090 |
| Deferred Revenue | 8,898 | | | 8,898 |
| Total Liabilities | <u>17,137</u> | <u>10,203</u> | | <u>39,936</u> |
| Fund Balances | | | | |
| Fund Balance | 53,226 | (6,491) | \$ 5,309 | 91,001.02 |
| Total Liabilities and Fund Balances | <u>\$ 70,363</u> | <u>\$ 3,712</u> | <u>\$ 5,309</u> | <u>\$ 130,937</u> |
| Amounts reported for governmental activities in the statement of net assets are different because: | | | | |
| Fund Balance | | | | \$ 91,001 |
| Capital assets used in governmental activities are not financial resources and are not reported in the funds. | | | | |
| Governmental funds report long term receivables as deferred revenue until received | | | | 271,013 |
| Internal Service Funds are used by management to charge the costs of motor pool activities to other funds. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net assets | | | | 8,898 |
| Net Assets of Governmental Activities | | | | <u>91,358</u> |
| | | | | <u>\$ 462,270</u> |

The Notes to Financial Statements are an Integral Part of this Statement.

Village of Vandalia
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended February 28, 2006

Exhibit 4

| | General Fund | Special Revenue Funds | | Other Governmental Funds | Total Governmental Funds |
|--|------------------|-----------------------|----------------------|--------------------------------|--------------------------------|
| | | Major Street Fund | Local Street Fund | CDBG Fund | |
| Revenues | | | | | |
| Taxes | | | | | |
| Property Taxes | \$ 39,249 | | | | \$ 39,249 |
| Delinquent Property Taxes | 5,751 | | | | 5,751 |
| Licenses and Permits | | | | | |
| Permits | 2,615 | | | | 2,615 |
| Cable TV Fee | 477 | | | | 477 |
| State Grants | | | | | |
| State Grant | 1,880 | \$ 26,888 | \$ 14,048 | | 42,816 |
| State Revenue Sharing | 50,326 | | | | 50,326 |
| Charges for Service | | | | | |
| Charges for Service | 250 | | | | 250 |
| Interest and Rentals | | | | | |
| Interest | 471 | 554 | 25 | \$ 0 | 1,050 |
| Rentals | 550 | | | | 550 |
| Other Revenue | | | | | |
| Donations | 58 | | | | 58 |
| Reimbursements | 2,460 | | | | 2,460 |
| TOTAL REVENUES | 104,086 | 27,442 | 14,074 | 0 | 145,602 |
| Expenditures | | | | | |
| General Government | | | | | |
| Village Council | 20,305.34 | | | | 20,305 |
| Village President | 4,503.40 | | | | 4,503 |
| Village Clerk | 13,402.22 | | | | 13,402 |
| Village Treasurer | 3,781.47 | | | 3 | 3,784 |
| Building and Grounds | 38,675.31 | | | | 38,675 |
| Cemetery | 5,473.06 | | | | 5,473 |
| Public Safety | | | | | |
| Building Inspection | 1,975.95 | | | | 1,976 |
| Public Works | | | | | |
| Street Lighting | 4,198.31 | | | | 4,198 |
| Street Department | | 23,492 | 30,533 | | 54,025 |
| Health and Welfare | | | | | |
| Ambulance | 3,071.00 | | | | 3,071 |
| Community and Economic Development | | | | | |
| Community Promotion | 2,185.46 | | | | 2,185 |
| Culture and Recreation | | | | | |
| Parks | 10,716.64 | | | | 10,717 |
| Other Functions | | | | | |
| Insurance and Bonds | 15,950.80 | | | | 15,951 |
| Capital Outlay | | | | | |
| Capital Outlay | 8,200.00 | | | | 8,200 |
| Total Expenditures | 132,439 | 23,492 | 30,533 | 3 | 186,467 |
| Excess (deficiency) of Revenues vs. Expenditures | (28,353) | 3,949 | (16,459) | (3) | (40,865) |
| Other Financing Sources (Uses) | | | | | |
| Transfers In (out) | | (6,637) | 6,637 | | - |
| Total Other Financing Sources (Uses) | - | (6,637) | 6,637 | - | - |
| Net Change in Fund Balances | (28,353) | (2,688) | (9,822) | (3) | (40,865) |
| Fund Balances - Beginning: | 81,579 | 41,645 | 3,331 | 5,311 | 131,866 |
| Fund Balances - Ending: | <u>\$ 53,226</u> | <u>\$ 38,957</u> | <u>\$ (6,491)</u> | <u>\$ 5,309</u> | <u>\$ 91,001</u> |

Amounts reported for governmental activities in the statement of activities are different because:

| | |
|--|----------------|
| Net Change in Fund Balance | (40,865) |
| Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation. This is the amount by which capital outlays exceeded depreciation in the current period. | 719 |
| Governmental funds report payments on long term receivables as revenue when collected; in the statement of activities, these receipts reduce a long term receivable which was recognized as revenue in a prior period. | (2,400) |
| Internal Service Funds are used by management to charge the costs of motor pool activities to other funds. The net revenue (expense) of the internal service fund is reported with governmental activities. | 34,113 |
| Change in Net Assets of Governmental Activities | <u>(8,434)</u> |

The Notes to Financial Statements are an integral part of this statement.

Village of Vandalia
Statement of Net Assets
Proprietary Fund
February 28, 2006

Exhibit 5

| | Governmental Activities Internal Service Fund |
|---|--|
| Assets | |
| Current Assets | |
| Cash | \$ 40,560 |
| Due From Other Funds | 21,246 |
| Total Current Assets | <u>61,807</u> |
| Noncurrent Assets | |
| Equipment | 95,656 |
| Accumulated Depreciation | (63,482) |
| Total Noncurrent Assets | <u>32,174</u> |
| Total Assets | <u><u>\$ 93,980</u></u> |
| Liabilities | |
| Due to Other Funds | 2,622 |
| Total Liabilities | <u>2,622</u> |
| Net Assets | |
| Invested in Capital Assets | 32,174 |
| Unrestricted | 59,185 |
| Total Liabilities and Net Assets | <u><u>\$ 93,980</u></u> |

The Notes to Financial Statements are an Integral Part of this Statement.

Village of Vandalia
Statement of Revenues, Expenses
and Changes in Fund Net Assets
Proprietary Fund
February 28, 2006

Exhibit 6

| | Governmental Activities Internal Service Fund |
|--------------------------|--|
| Operating Revenue | |
| Equipment Rental | \$ 46,157 |
| Total Operating Revenue | <u>46,157</u> |
| Operating Expenses | |
| Personal Services | 4,650 |
| Repair and Maintenance | 2,280 |
| Gas and Oil | 2,199 |
| Depreciation | 2,915 |
| Total Operating Expenses | <u>12,044</u> |
| Operating Income (Loss) | <u>34,113</u> |
| Change in Net Assets | 34,113 |
| Net Assets - Beginning: | <u>57,246</u> |
| Net Assets - Ending: | <u><u>\$ 91,358</u></u> |

The Notes to Financial Statements are an Integral Part of this Statement.

Village of Vandalia
Statement of Cash Flows
Internal Service Fund
For the Year Ended February 28, 2006

EXHIBIT 7

| | Internal Service Fund Motor Equipment Fund |
|--|---|
| Cash Flows From Operating Activities | |
| Payments to Vendors | \$ (642) |
| Internal Activity-Receipts from Other Funds | 45,827 |
| Net Cash Provided (Used) by Operating Activities | <u>45,185</u> |
| Cash Flows From Capital And Related Financing Activities | |
| Internal Activity-Payments to Other Funds for Previous Capital Expenditures | (19,058) |
| Net Cash Provided (Used) by Capital and Related Financing Activities | <u>(19,058)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 26,128 |
| Cash and Cash Equivalents at Beginning of Year | 14,433 |
| Cash and Cash Equivalents at End of Year | <u><u>\$ 40,560</u></u> |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities | |
| Operating Income (Loss) | \$ 34,113 |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities | |
| Depreciation Expense | 2,915 |
| Change in Assets and Liabilities | |
| Decrease (Increase) in Capital Assets | (559) |
| Decrease (Increase) in Due From Other Funds | 7,691 |
| Increase (Decrease) in Accounts Payable | (17) |
| Increase (Decrease) in Due to Other Funds | (18,015) |
| Net Cash Provided by Operating Activities | <u><u>\$ 26,128</u></u> |

The Notes to Financial Statements are an integral part of this statement.

Village of Vandalia
Notes To The Financial Statements
February 28, 2006

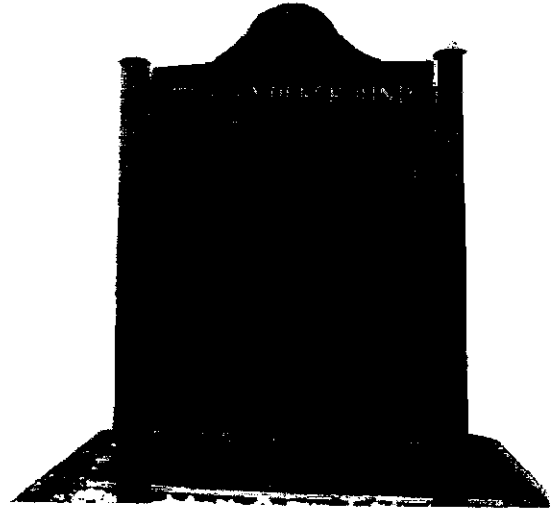
NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of Vandalia conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Local Governmental Unit:

A. Reporting Entity

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity.

The Village of Vandalia is located in Cass County and covers an area of one square mile. The Village provides services to its 429 residents in many areas including fire protection, community enrichment and development, and human services. The Village is a general law village governed by a six-member council elected by the citizens of the Village of Vandalia. The Village Council consists of the president and six council members. The accompanying financial statements present the government and its component units, entities for which the Village is considered to be financially accountable. Based on the criteria established by the Governmental Accounting Standards Board (GASB), the Village of Vandalia has no component units.



B. Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities that rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

C. Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Village of Vandalia
Notes To The Financial Statements
February 28, 2006

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The *government-wide financial statements* are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Property taxes and state-shared revenue are considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the Village. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Property Taxes—The Village property tax is levied and collectible on July 1 on the taxable valuation of property located in the Village as of the preceding December 31st. Taxes are delinquent on September 15. It is the Village's policy to recognize revenues in the current year when they are made available for the financing of Village operations. Payment from the County, which purchases the delinquent real property taxes, is recorded as Taxes Receivable.

The 2005 taxable value of the Village of Vandalia amounted to \$2,978,491, on which ad valorem taxes of 15 mills were levied for Village operating purposes. The 2005 current tax levied included \$39,227 for village operations. The delinquent real taxes totaling \$7,405 are recorded as Taxes Receivable.

The Village reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes, State and Federal aid, and charges for services to provide for the administration and operation of general village departments.

The Major Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

The Local Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on local streets.

Additionally, the Village reports the following fund types:

Special Revenue Funds are used to account for specific revenue (other than expendable trusts or major capital projects) derived from State and Federal grants, General Fund appropriations and charges for services which are to be expended for specific purposes as dictated by legal, regulatory or administrative requirements.

Internal service funds account for major machinery and equipment purchases and maintenance, as well as risk management services provided to other departments of the Village on a cost reimbursement basis.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Village has elected not to follow private-sector standards issued after November 30, 1989 for its business type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Village of Vandalia
Notes To The Financial Statements
February 28, 2006

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. Operating expenses for proprietary funds include the cost services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

F. Assets, Liabilities, and Net Assets or Equity

Bank Deposits—Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Receivables and Payables—In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." All property tax receivables are shown as net of allowance for uncollectible amounts.

Capital Assets—Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, buildings and equipment is depreciated using the straight-line method over the following useful lives:

| | |
|--------------------------------|---------------|
| Buildings | 60 years |
| Building Improvements | 30 years |
| Vehicles and Grounds Equipment | 5 to 15 years |
| Office Equipment | 7 years |
| Computer Equipment | 7 years |

Fund Equity--In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

G. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Village of Vandalia
Notes To The Financial Statements
February 28, 2006

NOTE 2—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budget Information

The annual budget is prepared by the Village's management and adopted by the Council and subsequent amendments to the budget are approved by the Council. The annual operating budget has been prepared on a basis of accounting consistent with accounting principles generally accepted in the United States of America and at the department/activity level. Unexpended appropriations lapse at year-end.

Excess of Expenditures Over Appropriations in Budgeted Funds

The Uniform Budgeting and Accounting Act, PA 2 of 1968, as amended, (MCL 141.421 et seq.), provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. The Village's actual expenditures and budgeted expenditures for the funds budgeted have been shown on a department/activity basis. During the fiscal year ended February 28, 2006, the Village incurred expenditures in certain budgeted funds, which were in excess of the amounts appropriated, as follows:

| <u>Fund/Function/Activity</u> | <u>Original Budget</u> | <u>Amended Budget</u> | <u>Actual</u> | <u>Variance</u> |
|------------------------------------|----------------------------|---------------------------|---------------|-----------------|
| General Fund | | | | |
| General Government | | | | |
| Village Council | 14,200 | 19,900 | 20,305 | (405) |
| Building and Grounds | 28,195 | 35,845 | 38,675 | (2,830) |
| Cemetery | 865 | 1,280 | 5,473 | (4,193) |
| Public Safety | | | | |
| Building Inspection | 850 | 850 | 1,976 | (1,126) |
| Community and Economic Development | | | | |
| Community Promotion | 2,000 | 2,000 | 2,185 | (185) |
| Recreation and Culture | | | | |
| Parks | 1,090 | 4,205 | 10,717 | (6,512) |
| Other Functions | | | | |
| Insurance & Bonds | 12,000 | 12,000 | 15,591 | (3,591) |
| Major Street Fund | | | | |
| Public Works | | | | |
| Street Department | 31,548 | 11,548 | 30,130 | (11,944) |
| Local Street Fund | | | | |
| Public Works | | | | |
| Street Department | 29,150 | 26,100 | 30,533 | (4,433) |

NOTE 3—CASH

Deposits are carried at cost. Deposits of the village are made in banks in the name of the Village of Vandalia Treasurer. Michigan Compiled Laws, Section 124.91, authorizes the village treasurer to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities, and direct obligations of the United States, or any agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard rating agencies within the three highest classifications, which matures not more than 270 days after the date of purchase, and which involves no more than 50 percent of any one fund. The Village's deposits are in accordance with statutory authority.

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets to deposits and investments as classified for note disclosure purposes is as follows:

| | |
|-------------------------|------------------|
| Statement of Net Assets | |
| Cash | <u>\$126,204</u> |
| Total | <u>\$126,204</u> |

Village of Vandalia
Notes To The Financial Statements
February 28, 2006

NOTE 3—CASH (continued)

The bank balance of all Village deposits is \$126,204, of which \$100,001 is covered by federal depository insurance.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned. State law does not require and the Township does not have a policy for deposit custodial credit risk. As of year end, \$26,203 of the Township's bank balance of \$126,204 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The Township's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

NOTE 4—INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables between the government funds are as follows:

| <u>Fund</u> | <u>Interfund Receivables</u> | <u>Fund</u> | <u>Interfund Payables</u> |
|----------------------|----------------------------------|----------------------|---------------------------|
| General Fund | \$ 6,478 | Major Street Fund | \$ 2,059 |
| | | Local Street Fund | 1,797 |
| | | Motor Equipment Fund | <u>2,622</u> |
| CDBG Fund | 4,709 | General Fund | \$6,478 |
| Motor Equipment Fund | 21,246 | General Fund | 4,709 |
| | | Major Street Fund | 2,304 |
| | | Local Street Fund | 10,536 |
| | | | <u>8,406</u> |
| Total | <u>\$32,433</u> | | <u>22,246</u> |
| | | | <u>\$32,433</u> |

NOTE 5—CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

| <u>Governmental Activities</u> | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deductions</u> | <u>Ending Balance</u> |
|--------------------------------------|------------------------------|------------------|-------------------|---------------------------|
| Capital Assets Not Being Depreciated | | | | |
| Land | \$ 37,389 | \$ 13,341 | \$ | \$ 50,730 |
| Subtotal | <u>37,389</u> | <u>13,341</u> | | <u>50,730</u> |
| Capital Assets Being Depreciated | | | | |
| Buildings | 295,534 | | | 295,534 |
| Building Improvements | 39,331 | | | 39,331 |
| Office Equipment | <u>6,908</u> | | | <u>6,908</u> |
| Subtotal | <u>341,773</u> | | | <u>341,773</u> |
| Less Accumulated Depreciation for | | | | |
| Buildings | 109,160 | 5,183 | | 114,343 |
| Building Improvements | 2,847 | 1,311 | | 4,158 |
| Office Equipment | <u>2,002</u> | <u>987</u> | | <u>2,989</u> |
| Subtotal | <u>114,009</u> | <u>7,481</u> | | <u>121,490</u> |
| Net Capital Assets Being Depreciated | <u>227,764</u> | <u>7,481</u> | | <u>220,283</u> |
| Governmental Activities Total | | | | |
| Capital Assets—Net of Depreciation | <u>\$ 265,153</u> | <u>\$ 13,341</u> | <u>\$ 7,481</u> | <u>\$ 71,013</u> |

Depreciation expense was charged to programs of the Governmental Activities as follows:

| | |
|--------------------------------|----------|
| Governmental Activities | |
| General Government | 6,082.00 |
| Public Works | 1,400.00 |

Village of Vandalia

Notes To The Financial Statements

February 28, 2006

NOTE 5--CAPITAL ASSETS (continued)

A summary of proprietary fund type (Motor Equipment Fund) fixed assets at February 28, 2006 follows:

| | Beginning Balance | Additions | Deductions | Ending Balance |
|--------------------------------------|----------------------|-----------|------------|-------------------|
| Capital Assets Not Being Depreciated | | | | |
| Equipment | 95,097 | | | 95,097 |
| Less Accumulated Depreciation | | | | |
| Equipment | 60,567 | 2,915 | | 63,482 |
| Net Capital Assets Being Depreciated | 34,530 | | 2,915 | 31,615 |

NOTE 6--RISK MANAGEMENT

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The Village is insured with the Michigan Municipal Liability and Property Pool. Workmen's compensation coverage is acquired from the Accident Fund of Michigan.

The Pool was established for the purpose of making a self-insurance pooling program available which includes, but is not limited to, general liability coverage, auto liability coverage, property insurance coverage, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Village pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the information of the Pool provides that the Pool will be self-sustaining through member payments determined necessary by the Pool Board.

During fiscal year end February 28, 2006 and the previous two years, there were no settlements that exceeded the respective insurance coverage. In addition, there has been no reduction in insurance coverage from the prior year.

NOTE 7--CONTINGENT LIABILITIES

The Village, in connection with the normal conduct of its affairs, is involved in various claims, judgments, and litigation. The Village's attorney and insurance carrier estimate that the potential claims against the Village, not covered by insurance resulting from such litigation, would not materially affect the financial statements of the Village.

NOTE 8 - TRANSFERS IN AND TRANSFERS (OUT)

The Major Street Transfer Out of \$6,637 to the Local Street Fund is in within the 25% limitation stated in Act 51 PA 1951, as amended. That amount is 25% of the MTF received during the fiscal year with accruals not being considered.

Village of Vandalia
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended February 28, 2006

Exhibit 8

| | Budgeted Amounts | | Actual | Variance |
|--------------------------------------|------------------|-----------|-----------|----------------------------|
| | Original | Final | Amounts | Favorable (Unfavorable) |
| Budgetary Fund Balance-Beginning | | \$ 74,045 | \$ 81,579 | \$ 7,534 |
| Resources (Inflows) | | | | |
| Taxes | 45,150 | 45,150 | 45,000 | (150) |
| Licenses and Permits | 1,388 | 2,434 | 3,091 | 657 |
| State Grants | 50,000 | 50,000 | 52,206 | 2,206 |
| Charges for Service | | 500 | 250 | (250) |
| Interest and Rentals | 535 | 900 | 1,021 | 121 |
| Other Revenue | 2,400 | 2,450 | 2,518 | 68 |
| Amounts Available for Appropriation | 99,473 | 175,479 | 185,665 | 10,186 |
| Charges to Appropriations (Outflows) | | | | |
| General Government | | | | |
| Village Council | 14,200 | 19,900 | 20,305 | (405) |
| President | 4,510 | 4,510 | 4,503 | 7 |
| Clerk | 18,570 | 19,675 | 13,402 | 6,273 |
| Treasurer | 3,800 | 3,800 | 3,781 | 19 |
| Building and Grounds | 28,195 | 35,845 | 38,675 | (2,830) |
| Cemetery | 865 | 1,280 | 5,473 | (4,193) |
| Public Safety | | | | |
| Building Inspection | 850 | 850 | 1,976 | (1,126) |
| Public Works | | | | |
| Street Lighting | 4,500 | 4,500 | 4,198 | 302 |
| Highways, Streets and Bridges | | 4,385 | | 4,385 |
| Health and Welfare | | | | |
| Ambulance | 4,500 | 4,500 | 3,071 | 1,429 |
| Community and Economic Development | | | | |
| Community Promotion | 2,000 | 2,000 | 2,185 | (185) |
| Recreation and Culture | | | | |
| Parks | 1,090 | 4,205 | 10,717 | (6,512) |
| Other Functions | | | | |
| Insurance & Bonds | 12,000 | 12,000 | 15,591 | (3,591) |
| Capital Outlay | 10,500 | 10,500 | 8,200 | |
| Transfer Out | 10,000 | 10,000 | | 10,000 |
| Total Charges to Appropriations | 115,580 | 137,950 | 132,079 | 5,871 |
| Budgetary Fund Balance-Ending | | \$ 37,529 | \$ 53,586 | \$ 16,057 |

Village of Vandalia
 Budgetary Comparison Schedule
 Major Street Fund
 For the Year Ended February 28, 2006

Exhibit 9

| | Budgeted Amounts | | Actual | Variance |
|--------------------------------------|------------------|-----------|-----------|----------------------------|
| | Original | Final | Amounts | Favorable (Unfavorable) |
| Budgetary Fund Balance-Beginning | | \$ 17,807 | \$ 41,645 | \$ 23,838 |
| Resources (Inflows) | | | | |
| State Grants | 29,000 | 27,000 | 26,888 | (112) |
| Interest and Rentals | 400 | 400 | 554 | 154 |
| Amounts Available for Appropriation | 29,400 | 45,207 | 69,087 | 23,880 |
| Charges to Appropriations (Outflows) | | | | |
| Public Works | | | | |
| Street Department | 31,548 | 11,548 | | (11,944) |
| Road Maintenance | | | 12,500 | |
| Winter Maintenance | | | 9,016 | |
| Administration | | | 1,976 | |
| Transfers Out | 7,400 | 6,750 | 6,637 | 113 |
| Total Charges to Appropriations | 38,948 | 18,298 | 30,130 | (11,832) |
| Budgetary Fund Balance-Ending | \$ (9,548) | \$ 26,909 | \$ 38,957 | \$ 12,048 |

Village of Vandalia
 Budgetary Comparison Schedule
 Local Street Fund
 For the Year Ended February 28, 2006

Exhibit 10

| | Budgeted Amounts | | Actual Amounts | Variance Favorable (Unfavorable) |
|--------------------------------------|------------------|----------|-------------------|--|
| | Original | Final | | |
| Budgetary Fund Balance-Beginning | | \$ 3,331 | \$ 3,331 | \$ (0) |
| Resources (Inflows) | | | | |
| State Grants | 10,000 | 14,000 | 14,048 | 48 |
| Interest and Rentals | 200 | 100 | 25 | (75) |
| Transfers In | 17,400 | 16,750 | 6,637 | (10,113) |
| Amounts Available for Appropriation | 27,600 | 34,181 | 24,042 | (10,139) |
| Charges to Appropriations (Outflows) | | | | |
| Public Works | | | | |
| Street Department | 29,150 | 26,100 | | (4,433) |
| Road Maintenance | | | 19,228 | |
| Winter Maintenance | | | 9,329 | |
| Administration | | | 1,976 | |
| Total Charges to Appropriations | 29,150 | 26,100 | 30,533 | (4,433) |
| Budgetary Fund Balance-Ending | \$ (1,550) | \$ 8,081 | \$ (6,491) | \$ (14,572) |

Village of Vandalia
 Budgetary Comparison Schedule
 CDBG Fund
 For the Year Ended February 28, 2006

Exhibit 11

| | Budgeted Amounts | | Actual | Variance |
|--------------------------------------|------------------|----------|----------|----------------------------|
| | Original | Final | Amounts | Favorable (Unfavorable) |
| Budgetary Fund Balance-Beginning | \$ - | \$ 5,311 | \$ 5,311 | \$ - |
| Resources (Inflows) | | | | |
| Interest | 5 | 0 | 0 | - |
| Other | | | | |
| Amounts Available for Appropriation | 5 | 5,312 | 5,312 | - |
| Charges to Appropriations (Outflows) | | | | |
| General Government | | | | |
| Treasurer-Bank Fees | 240 | 3 | 3 | - |
| Transfer Out | | 5,309 | | 5,309 |
| Total Charges to Appropriations | 240 | 5,312 | 3 | 5,309 |
| Budgetary Fund Balance-Ending | \$ (235) | \$ - | \$ 5,309 | \$ 5,309 |